

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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July 28, 2008

Mr. George Dondero, Executive Director
Santa Cruz County Regional Transportation Commission
1523 Pacific Avenue
Santa Cruz, CA 95060-3911

Re: Santa Cruz County Regional Transportation Commission (SCCRTC)
Audit of Indirect Cost Allocation Plan for FY 2007/08
File No: P1190-0669

Dear Mr. Dondero:

We have audited the Santa Cruz County Regional Transportation Commission (SCCRTC) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008, to determine whether the ICAP is presented in accordance with the Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The SCCRTC management is responsible for the fair presentation of the ICAP. SCCRTC proposed an indirect cost rate of 84% of total direct salaries and wages, plus fringe benefits.

Our audit was conducted in accordance with the Performance Standards set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SCCRTC. Therefore, we did not audit and are not expressing an opinion on SCCRTC's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SCCRTC, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the SCCRTC in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, inquiries of SCCRTC personnel, and a comparison of the ICAP to single audit reports for the fiscal years ended June 30, 2007. The audit also included tests of individual accounts in the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs and an assessment of the internal control system as related to the ICAP as of January 16, 2008. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The audit findings were communicated with Daniel Nikuna, Fiscal Officer of SCCRTC. Our findings, SCCRTC's response and our analysis are documented below.

AUDIT RESULTS

Based on audit work performed, SCCRTC's ICAP for the fiscal year ended June 30, 2008, is presented in accordance with OMB Circular A-87 and the Department's LPP 04-10. The approved indirect cost rate is 84% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Finding

SCCRTC included direct costs of meetings for the highway 1 PA/ED project in the indirect cost pool. OMB Circular No. A-87 Attachment A (F): *"1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved."* The meetings are easily identified as a direct project costs on the invoices and therefore should not be in the indirect cost pool.

SCCRTC also included in the indirect cost pool, membership fees for an organization substantially engaged in lobbying (CALCOG). OMB Circular No. A-87 Attachment B (24) (a): *"General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost."* SCCRTC should not seek reimbursement for unallowed lobbying activities.

Recommendation

SCCRTC should only include allowable indirect costs in the indirect cost allocation plan.

Discussion with Auditee

We discussed these issues with Daniel Nikuna, Fiscal Officer of SCCRTC by both phone calls and e-mails. He did not express any disagreement.

Auditor's Analysis

Auditee agrees with the finding.

Unresolved Prior Audit Finding

SCCRTC does not have separate accounts for some of the operations costs to segregate non-labor direct, indirect, allowable or unallowable costs. Instead the Recipient segregates these costs after the fact manually by reviewing the cost items. Master Agreement, Article II – General Provisions, Section 2 (B) (1) states: *"Recipient, its contractors and subcontractors shall establish and maintain an accounting system and records that properly accumulate and segregate incurred PROJECT costs and matching funds by line item for the Project."* This is an ongoing finding from audit report P1190-0487 dated September of 2005. SCCRTC management has elected to exclude individual accounts in their entirety if concerns about the allowability of the transactions in the account are raised. They believe that the time they would spend analyzing would not provide a significant benefit.

Recommendation:

To ensure recovery of all allowable costs, SCCRTC should create separate accounts to track non-labor direct, indirect, allocable and unallowable operation costs.

Auditee's Response

According to SCCRTC management, given the nature of SCCRTC's accounting procedures, the cost of implementing procedures to segregate these costs far outweighs the benefit given that SCCRTC utilizes the accounting structure of the County of Santa Cruz. Only indexes 721400 and 721750 have non-labor costs, which are included in the indirect cost rate computation. The costs in all remaining Governmental Fund indexes (721425, 721600, 721700, 721825, 721827, 722100, and 722200) are either labor costs and/or direct non-labor cost in those specific funds. Moreover, there are very few accounts ("Subobjects"), which need to be analyzed in indexes 721400 and 721750.

Auditor's Analysis of the Auditee's Response

The finding remains as our recommendation allows for a more accurate segregation of costs.

This report is intended solely for the information of SCCRTC, Department Management, the California Transportation Commission, and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 05, the Department's Division of Accounting, and the FHWA. If you have any questions, please contact Amada Maenpaa, Audit Supervisor, at (916) 323-7868.



MARY ANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, FHWA
- Gary Buckhammer, Division of Accounting
- Mike Giuliano, District 5
- Andrew Knapp, Division of Planning
- Jennifer Calate, District 5



SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION
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**Santa Cruz County Regional Transportation Commission
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Santa Cruz County Regional Transportation Commission and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	7/1/07 to 6/30/08	84%	All Programs

*Base: Total Direct Salaries & Benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency.

Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

FY 2008 Budgeted Indirect Salaries & Benefits	\$ 944,187
Carry Forward	<u>(94,626)</u>
Estimated FY 2007 Indirect Costs	\$ 849,561
FY 2008 Budgeted Direct Salaries & Benefits	\$ 1,012,456
FY 2008 Indirect Cost Rate	84%

CERTIFICATION OF INDIRECT COSTS

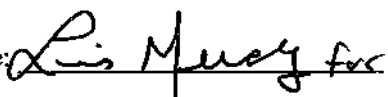
This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: **Santa Cruz County Regional Transportation Commission**

Signature: 

Signature: 

Reviewed, Approved and Submitted by:

Prepared by: **Daniel Nikuna**

Name of Official: **George Dondero**

Name of Official: **Daniel Nikuna**

Title: **Executive Director**

Title: **Fiscal Officer**

Date of Execution: September 6, 2007

Phone: (831) 460-3200

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.


Signature

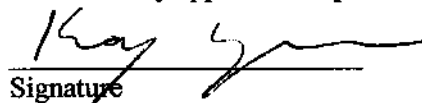
Reviewed and Approved by:

(Name of Audit Manager)

Title: **Cheryl Esten**

Date: **7/23/08**

Phone Number: **916-323-7105**


Signature

Reviewed and Approved by: **Kesh Braeger**

(Name of auditor)

Title: **Associate Management Auditor**

Date: **7/23/08**

Phone Number: **916-323-7986**

SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION
Cost Allocation Plan - Indirect Cost Pool
For Fiscal Year Beginning July 1, 2007 and Ending June 30, 2008

2007-2008 Fiscal Year - Budget (March 2007)

	DIRECT COST	INDIRECT COSTS	TOTAL BUDGET
Salaries and Fringe Benefits	1,012,456	642,909	1,655,365
Total Salaries & Benefits	<u>1,012,456</u>	<u>642,909</u>	<u>1,655,365</u>
County Overhead		4,138	
Membership		5,800	
Office Expense		30,000	
Telephone		11,500	
Phone and Voice Mail Maintenance		2,000	
Liability Insurance		21,000	
Office Equipment Repair/Maintenance		4,000	
Video Conferencing		2,500	
Annual Report		8,000	
Fiscal Audit		17,450	
Performance Audit		-	
Auditor-Controller		5,000	
Legal Counsel		35,000	
County Mainframe/Intranet		5,000	
Programming for Computer System & Website		5,000	
Computer Software		5,500	
Internet/Website Fees		2,000	
Human Resource/Employee Relations - Autonomy		16,000	
LAN Project/Computer Support		20,000	
Utilities		8,000	
Janitorial		6,000	
Vehicle Rental		2,500	
Office Rent		77,500	
Total Indirect General & Administrative Costs		<u>293,888</u>	
Depreciation		<u>7,390</u>	
Total Overhead before Carry Forward		944,187	
Carry Forward (from FY 2006)		(94,626)	
TOTAL INDIRECT COSTS		849,561	
INDIRECT COST RATE		84%	

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SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION
Indirect Costs Carryover Calculation

	FY 2004-2005	FY 2005-2006	FY 2006-2007	FY 2007-2008
APPROVED INDIRECT COST RATE	93%	92%	109%	84%
INDIRECT CARRY FORWARD				
Carry Forward				(94,626)
Indirect Costs from Single Audit	767,628	(23,322) 755,163	80,394	944,187
Total Indirect Costs	767,628	731,841	80,394	849,561
RECOVERED COSTS				
Direct Salaries and Wages	738,961	898,334		
(Approved Rate)	93%	92%	109%	
Total Recovered Indirect Costs	687,234	826,467	-	1,012,456
Indirect Carry Forward	80,394	(94,626)		
DIRECT SALARIES AND WAGES (Per Single Audit)				
General Fund - Salaries and Wages	523,903	648,342		
Special Revenues:				
Freeway Service Patrol (FSP)	17,617	20,052		
Service Authority for Freeway Emergencies (SAFE)	24,352	31,771		
Rail Trail Authority	77,720	96,354		
Highway 1 PAVED	95,369	101,917		
Subtotal	215,058	250,094		
Total Direct Salaries & Wages	738,961	898,436		

**SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION
ADMINISTRATION AND PLANNING**

EXHIBIT I

Cost Allocation Plan - Indirect Cost Pool
For Fiscal Year Beginning July 1, 2007 and Ending June 30, 2008

2007-2008 Fiscal Year - Budget (Approved March 2007)

	Total	Direct	Exclusions	Unallowed	Total Indirect
Salaries and Fringe Benefits	1,655,365	1,655,365			
Indirect Labor (69.5% of Direct Salaries & Fringe Benefits)		(642,909)			642,909
Total Salaries & Benefits	1,655,365	1,012,456			642,909
County Overhead	4,138				4,138
Membership	5,800				5,800
Sponsorship	1,000		1,000		-
Office Expense	30,000				30,000
Duplicating	19,000		19,000		-
Postage	9,000		9,000		-
County Motor Pool					-
Transportation/Travel/Education	20,000		20,000		-
Telephone	11,500				11,500
Phone and Voice Mail Maintenance	2,000				2,000
Liability Insurance	21,000				21,000
Publication/Advertisement	8,500		8,500		-
Directors Expenses	11,000		11,000		-
Field Equipment/Supplies	4,000				4,000
Office Equipment Repair/Maintenance	2,500				2,500
Video Conferencing	8,000				8,000
Annual Report	17,450				17,450
Fiscal Audit					-
Performance Audit	5,000				5,000
Auditor/Controller	35,000				35,000
Legal Counsel	10,000			10,000	-
Contingency/Special Expense	5,000				5,000
County Mainframe/Intranet	5,000				5,000
Programming for Computer System & Website	5,500				5,500
Computer Software	2,000				2,000
Internet/Webbelle Fees	12,000			12,000	-
Fixed Assets	16,000				16,000
Human Resources/Employee Relations - Autonomy					-
Contingency - Autonomy	20,000				20,000
LAN Project/Computer Support	8,000				8,000
Utilities	6,000				6,000
Custodial/Janitorial	2,500				2,500
Vehicle Rental	77,500				77,500
Office Rent	40,000			40,000	-
Washington Assistant	40,000			40,000	-
Sacramento Assistant	41,200			41,200	-
Bike to Work	8,135			8,135	-
Bike Secure Program III	100,000			100,000	-
Community Traffic Position	15,000			15,000	-
Printing RTP/RTIP and Other Documents	9,000			9,000	-
Traffic Monitoring Services - Count	30,000			30,000	-
T. Funding Task Force	60,000			60,000	-
T. Funding Task Force - Consultant	12,000			12,000	-
Technical Advisory - B. Scott	175,000			175,000	-
Coastal Trail Plan Outreach	10,000			10,000	-
Coastal Trail Master Plan Consultant	101,835			101,835	-
Transfer Out to Rail/Trail Authority					-
	1,026,559	-	68,600	664,170	293,888
Depreciation	2,681,923	1,012,456			293,888
					7,390
Total Overhead before Carry Forward					944,187
Carry Forward (from FY 2006)					(94,626)
Total Indirect Costs					849,561
Indirect Rate: Total Indirect Costs/Total Direct Salaries & Benefits					84%